

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Inbound Competitive Multi-Service Agreements
with Foreign Postal Operators
China Post Group–United States Postal Service
Multi-Product Bilateral Agreement (MC2010-34)
Negotiated Service Agreement

Docket No. CP2013-23

PUBLIC REPRESENTATIVE COMMENTS ON POSTAL SERVICE
NOTICE CONCERNING MODIFICATION OF
CHINA POST 2013 AGREEMENT

(June 7, 2013)

The Public Representative hereby provides comments pursuant to Order No. 1736.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice announcing an amendment to the China Post 2013 Agreement (Agreement).² The Agreement concerns the inbound portion of a multi-product bilateral agreement with China Post Group.³ On December 21, 2012, the Commission approved the addition of the China Post 2013 Agreement to the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product.⁴

The China Post 2013 Agreement establishes rates for the delivery of inbound Air Parcel Post (Air CP), Surface Parcel Post (Surface CP) and Express Mail Service (EMS) by the Postal Service. Initial Notice at 3. The Agreement also establishes a

¹ PRC Order No. 1736, Notice and Order Concerning Modification of 2013 China Post Agreement, May 30, 2013.

² Notice of the United States Postal Service of Filing Modification to the China Post Group – United States Postal Service Multi-Product Bilateral Negotiated Service Agreement, May 29, 2013 (Notice).

³ Notice of United States Postal Service of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with a Foreign Postal Operator, November 30, 2012, (Initial Notice) at 1.

⁴ PRC Order No. 1591, Order Approving an Additional Inbound Competitive Multi-Service Agreements with Foreign Operators 1 Negotiated Service Agreement (with China Post Group), December 21, 2012.

mechanism for amending the Agreement, including an amendment “for a yet to be launched inbound product.”⁵

In this proceeding, the Postal Service’s Notice provides a redacted copy of the signed amendment, which modifies the China Post 2013 Agreement by establishing rates for two new bilaterally negotiated products—an air parcel product with Delivery Confirmation and an air parcel product with Signature Confirmation—and creates a new Annex 7 and Annex 8.⁶ According to the amendment, the rates and other terms become effective “on the later of the two dates on which [the amendment] is signed by the Parties’ representatives,” *i.e.*, May 15, 2013, and are to remain in effect for the same term as the Agreement. *Id.*, Attachment 1, at 2.

COMMENTS

The Public Representative has reviewed China Post 2013 Agreement, the amendment thereto, and the supporting financial model filed under seal that accompanies the Postal Service’s Notice. Based upon that review, the Public Representative concludes that the China Post 2013 Agreement, as amended, appears likely to satisfy the requirements of 39 U.S.C. § 3633. That said, the projected cost coverage presented in the financial model for the amended Agreement is small and there is little margin for error if unit costs, especially for inbound EMS, are understated. In this regard, the Public Representative questions the reasonableness of certain unit cost estimates for both of the newly negotiated air parcel products. Finally, the Public Representative notes that the Postal Service does not explain how the amended China Post 2013 Agreement is functionally equivalent to the baseline agreement established in Order No. 546.⁷

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service must demonstrate that the amended China Post 2013 Agreement covers its

⁵ Initial Notice, Attachment 1, consisting of the China Post Group – United States Postal Service Multi-Product Bilateral Agreement; specifically, Article 19, and Annex 1, Note 3 (redacted).

⁶ Notice, Attachment 1, at 1. An unredacted copy of the Amendment is filed separately under seal with the Commission.

⁷ See PRC Order No. 546, Order Adding Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 to the Competitive Product List and Approving Included Agreement, Docket Nos. MC2010-34 and CP2010-95, September 29, 2010 (TNT Agreement).

attributable costs, and thereby precludes the subsidization of competitive products by market dominant products. As indicated above, the Postal Service's financial model for the amended Agreement indicates that the negotiated prices, including those for the new air parcel products, will generate sufficient revenue to cover costs.⁸ However, the estimated mail processing and delivery unit costs shown in the financial model for both new air parcel products do not appear reasonable.

The Postal Service separately estimates the mail processing and delivery unit costs of the Signature Confirmation and Delivery Confirmation services.⁹ To estimate the mail processing and delivery unit costs for the new air parcel products with Signature Confirmation and Delivery Confirmation, the financial model adjusts the average mail processing and delivery unit costs for inbound air parcel post from all developing countries presented in the FY2012 International Costs and Revenue Analysis (ICRA) report.¹⁰ For the new air parcel product with Signature Confirmation, however, no adjustments are made as the financial model assumes that the mail processing and delivery unit costs for this new product are the same as the average unit costs for inbound air parcel post from all developing countries. For the new air parcel product with Delivery Confirmation, the financial model adjusts the average unit costs downward by the estimated mail processing and delivery unit costs of the Delivery Confirmation service, thereby making the mail processing and delivery unit costs for this new product even less than the average unit costs for inbound air parcel post from all developing countries.

⁸ It should be noted that the projected cost coverage shown in the financial model for the amended Agreement is an improvement over the projected cost coverage for the China Post 2013 Agreement shown in the financial model accompanying the Postal Service's Initial Notice. Compare Excel files China_Comp_IB_2013.05.23.xls, worksheet tab 15_Proj_Cost & Revenue, and China_Comp_Workpapers.xls, worksheet tab 15_Proj_Cost & Revenue.

⁹ See Excel file China_Comp_IB_2013.05.23.xls, worksheet tab 01_Inputs. It should be noted that the financial model does not show how the separately estimated mail processing and delivery unit costs of Signature Confirmation and Delivery Confirmation are developed. Rather, these unit cost estimates are taken from two Excel spreadsheets, SIGCon-FY 2012.xls and DelCon-FY 2012.xls, which were not provided to the Commission with the financial model. The Commission should request that the Postal Service provide these Excel files in order to obtain the entire financial model relied upon by the Postal Service in developing its unit cost estimates for the new air parcel products.

¹⁰ Excel file China_Comp_IB_2013.05.23.xls, worksheet tab 05_Product_Unit_Cost_Inputs, Note "Source: [Ab] to [Cb] and [Ae] to [Ce]," citing (USPS-FY12-NP2, Docket No. ACR2012, Revised 2/8/2013), Reports.xls file, 'CRA Staging' tab (Developing Country Costs).

The mail processing and delivery unit cost estimates for the new air parcel products with Signature Confirmation and Delivery Confirmation are counter intuitive, *i.e.*, the mail processing and delivery costs are less expensive for the air parcel products with additional services than those products would be without such services. The Commission should request from the Postal Service an explanation for these counter intuitive estimates.

Functional Equivalence. The Postal Service asserts that the amended China Post 2013 Agreement and supporting documents accompanying its Notice “establish[] compliance with 39 U.S.C. § 3633 and 39 C.F.R. § 3015.5.” Notice at 2. In this regard, the Postal Service’s financial model projects the contribution and cost coverage for all inbound services under the amended Agreement, including the new air parcel products. By contrast, the Postal Service does not address how the China Post 2013 Agreement, now that it is amended, is functionally equivalent to the baseline TNT Agreement.

Given that the Commission reviews both new and amended negotiated service agreements grouped within the Inbound Competitive Multi-Service Agreement with Foreign Postal Operators 1 product for compliance with 39 U.S.C. § 3633, it seems reasonable to expect that an amended agreement containing new service features and rates also remains functionally equivalent to the baseline TNT Agreement. The Commission should request from the Postal Service an explanation as to how the amended China Post 2013 Agreement remains substantially similar, and therefore functionally equivalent, to the baseline TNT Agreement.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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